

SMART

JOURNAL OF BUSINESS MANAGEMENT STUDIES

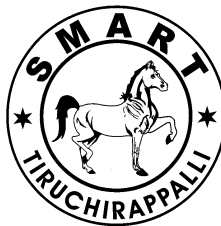
Vol.2

No. 1

January - June 2006

ISSN 0973 - 1598

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Chief Editor



SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST
(SMART)

TIRUCHIRAPPALLI (INDIA)

<http://www.geocities.com/smartbard>

PERFORMANCE EVALUATION OF BANKING OMBUDSMAN SCHEME

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Abstract

Over a period of time, the number of complaints against banks with regard to deficiency of their services has been increasing in spite of several efforts taken by the banks on the advice of the Reserve Bank of India. Since the role of banks has changed from 'Class Bank' to 'Mass Bank', there is a tremendous pressure on the part of banks to satisfy the various needs of the customers. Customer service has assumed a special significance as the banks are determined to achieve social purpose, besides aiming at profit. In this backdrop, an attempt has been made to analyze the performance of Banking Ombudsman Scheme. The purpose of this paper is threefold: Firstly, to trace the historical perspective of Banking Ombudsman Scheme. Secondly, to highlight the functional aspect of Banking Ombudsman Scheme and finally, to bring forth the performance of Banking Ombudsman Scheme in terms of quantum of complaints handled and time taken for redressal.

Introduction

In India, there are a number of voluntary organizations, besides legal consumer organizations, playing a vital role in protecting the rights of consumers and organising redressal of the customers' grievances without resorting to expensive and time consuming litigation. As far as deficiency in banking services is concerned, the customers can approach civil courts or consumer forums established under the Consumer Protection Act, 1986 or avail the customer grievance redressal machinery available within the banking system such as Banking Ombudsman, customer grievance cells of each bank, etc.

However, it is the duty of Reserve Bank of India to take measures to protect the interests of bank customers in India. In this regard, the Banking Commission, appointed by RBI under the Chairmanship of R.S.Saraiya in 1972, made a number of recommendations for improvement in customer service, most of which were implemented by the banks. The Working

Group on Customer Service in Banks, set up by the Government in 1975 under the Chairmanship of Mr.R.K.Talwar, has listed the factors for customer dissatisfaction as delay and inaccuracy in putting through transactions, delay and inadequacies in correspondence, delayed, faulty and unhelpful decision-making, absence of elementary discipline, undue emphasis of staff on observance of rules and procedures, inconveniences associated with credit applications, lack of uniformity in bank charges, customer being viewed as a 'faceless' unit, general attitude of unconcern and apathy towards clients. The Committee has made 176 recommendations and most of them were accepted by the RBI and implemented by all the banks.

Another Committee headed by M.N.Goiporia, the then Chairman of SBI, was set up by RBI in 1990 to study issues relating to customer service. The Committee proposed 15 core recommendations to ensure improvement in the customer service in the banks. Thus, today, the customer service in banks is gaining more importance, especially in the context of

liberalization, privatization and globalization. Nearly 60% of complaints, lodged with the consumer fora, relate to deficiency of services in banking, insurance and telecommunications companies.

In this direction, RBI introduced the Banking Ombudsman Scheme in 1995 as an alternative dispute settlement mechanism for the redressal of grievances of bank customers regarding the deficiency in banking services.

Banking Ombudsman Scheme, 1995

In order to provide a system of expeditious and inexpensive resolution of customer complaints related to banking services, the Banking Ombudsman Scheme was introduced by the RBI on 14-6-1995 under Section 35A of the Banking Regulation Act, 1949. Fifteen Banking Ombudsmen have been appointed by the Government of India in major cities under the Scheme to deal with the complaints relating to deficiency of banking services.

The word "Ombudsman" in general means a "grievance man". He is a public official who is appointed to investigate complaints against the administration. The Banking Ombudsman is an office set up by the Reserve Bank of India to give speedy and cost effective resolution of grievances of the bank customers. The role of Banking Ombudsmen in India is to deal with the redressal of grievances against deficiency in banking services covering all commercial banks and scheduled primary co-operative banks.

Powers of the Banking Ombudsman

In India, any person whose grievance against a bank is not resolved to his satisfaction by that bank within a period of two months, can approach the Banking Ombudsman if his complaint pertains to any of the matters specified in the Scheme. Banking Ombudsmen have been

authorized to look into all complaints concerning deficiency in services such as:-

- A. Non-payment/inordinate delay in the payment or collection of cheques, bills and drafts etc.
- B. Complaints concerning loans and advances.
- C. Such other matters as may be specified by RBI from time to time in this matter.

Procedure for redressal of grievances

(1) Any person, who has a grievance against the Bank, may himself or through an authorized representative, make a complaint in writing to the Banking Ombudsman within whose jurisdiction the Branch Office of the Bank complained against is located.

(2) The complaint shall be in writing, duly signed by the complainant or his authorized representative and shall state clearly the name and address of the complainant, the name and address of the branch or office of the bank against which the complaint is made, the facts giving rise to complaints supported by the documents, if any, relied on by the complainant, the nature and extent of loss caused to the complainant and the relief sought from the banking ombudsman and a settlement about the compliance of the conditions referred to in sub clause 3.

(3) No complaint to the Banking Ombudsman shall lie unless:

- 1. Written representation was made to the bank and either the bank had rejected the complaint or no reply was received from the bank within 60 days of receipt of complaint or in case of unsatisfactory reply received from the bank.
- 2. The complaint is made one year after the rejection of the representation by the bank or dispatch of final reply by the bank on the representation.

3. The complaint is not the same subject matter if settled by the Banking Ombudsman in previous proceedings whether received from the same complainant or any one or more of the parties concerned with the subject matter.
4. The complaint is not the same subject matter, for which any proceedings before any court, tribunal or arbitrator or any other forum is pending or a decree or award or order of dismissal has already been passed by any such court, tribunal, arbitrator or forum.
5. The complaint is not frivolous or vexatious in nature.

Action by the Banking Ombudsman

The Scheme of Banking Ombudsman was introduced with the object of enabling resolution of complaints relating to provision of banking services and resolving disputes between a bank and its constituent as well as between one bank and another bank through the process of conciliation, mediation and arbitration. For the purpose of carrying out his duties under this Scheme, a banking ombudsman may require the bank named in the complaint to provide information or furnish copies of any document relating to the complaint.

After detailed examination of the complaints / grievances of customers of banks and after perusal of the comments of banks, the Banking Ombudsmen issue their awards in respect of individual complaints to redress their grievances.

Banking Ombudsman Scheme, 2002

To improve the effectiveness of the Scheme, the Banking Ombudsman Scheme of 1995 was reviewed by an informal group, constituted by the Reserve Bank. The revised Banking Ombudsman Scheme, 2002, came into ef-

fect on June 14, 2002. The new Scheme covers all the Regional Rural Banks, in addition to all commercial banks and scheduled primary cooperative banks. The new Banking Ombudsman Scheme also covers the customer complaints relating to banks' credit card operations even when they are offered by their subsidiaries. The new Scheme additionally provides for an institution of a 'Review Authority' to review the Ombudsman's Award. The Banking Ombudsman has now also been authorized to function as an arbitrator for disputes between banks and their customers or between two banks. The value of the subject matter of individual disputes under arbitration should not exceed Rs. 10 lakh.

Once the Banking Ombudsman gives the award and the complainant accepts the award and final settlement of his claim within a period of 15 days, the award will be binding on the bank against which it is issued unless it prefers to file review petition with the Review Authority resting with the Reserve Bank.

In cases where the bank does not file such review petition, the bank has to accept the Award and intimate the compliance to the Banking Ombudsman within one month. In the event of the bank failing to implement the Award within the prescribed time limit, the complainant may also, if he so desires, approach the Review Authority with a prayer to pass an appropriate direction to the bank for immediate compliance of the Award. In cases where the bank files a review application against the Award and the Review Authority upholds the Award, the bank shall implement the same within a period of one month. In the case of failure on the part of the bank to do so, the Reserve Bank may consider suitable steps to implement the decision of the Review Authority.

But in practice, it is reported that the banks are deliberately delaying the implemen-

tation of the Awards. As the delays in redressal defeat the objective of the Banking Ombudsman Scheme, banks are advised by the RBI to ensure that the Awards of the Banking Ombudsmen are implemented immediately with the active involvement of the top management. The Reserve Bank has also advised all scheduled commercial banks that their Customer Service Committee of the Board should play a more proactive role with regard to complaints/grievances resolved by Banking Ombudsmen. With a view to enhancing the effectiveness of the Customer Service Committee, banks have also been advised to place all the awards issued by the Banking Ombudsmen before the Customer Service Committee -

- to enable it to address issues of systemic deficiencies existing in banks, if any, brought out by the Awards; and
- to enable it to report to the Board such delays in implementation and for initiating necessary remedial action in cases where Awards remain unimplemented.

Methodology

This study has been designed to have descriptive and analytical exercise, based on the secondary data. The data are collected from the secondary sources such as RBI publications, Journals and Reports. The data have been analyzed using simple tools such as percentages and averages. A period of 6 years from 1998-99 to 2003-04 was considered. The performance of the Banking Ombudsman Scheme has been evaluated with the help of secondary data, presented in the following paragraphs.

Complaints Received

The number of complaints received by all the fifteen Banking Ombudsman Offices in India during the period 1998-99 to 2003-04 and the average number of complaints per office are

presented in Table 1. It reveals that on an average, over 5000 complaints are received by the Banking Ombudsmen every year. There has been steady increase in the number of complaints received by the fifteen offices of Banking Ombudsmen in India since 1998-2000. The number of complaints received has increased from 4994 in 1999-2000 to 8246 in 2003-04.

It is also observed that the average number of complaints received per office has also increased from 333 in 1999-2000 to 550 in 2003-04. It shows that there is an increasing awareness among the bank customers regarding their rights and the need for Banking Ombudsman for redressal of their grievances.

Classification of complaints

The number of subject-wise complaints received by fifteen Banking Ombudsmen during the period 1998-99 to 2003-04 is presented in Table 2. The Table 3 reveals bank-group wise break up of complaints dealt with by the Banking Ombudsmen during the period 1998-99 to 2003-04.

Disposal of Complaints

The details regarding the complaints disposed of by Banking Ombudsmen in India are presented in Table 4. It is observed from Table 4 that the number of complaints, including pending complaints in the previous year, has increased from 6800 in 1999-2000 to 9483 in 2003-04. Out of the complaints received, the number of non-maintainable complaints has also increased from 2614 in 1999-2000 to 4011 in 2003-04. The number of maintainable complaints has increased from 4186 in 1999-2000 to 5472 in 2003-04. It is also noted that the number of complaints disposed of has steadily increased from 2484 in 1999-2000 to 3998 in 2003-04.

It also shows that the Banking Ombudsmen Offices were able to dispose of around 70% of the maintainable complaints on an annual basis. Despite increase in the number of complaints, the percentage of maintainable complaints disposed of increased steadily except during 2002-03 when it dipped marginally. It is also interesting to note that out of the pending complaints, the number of complaints pending for more than two months has declined gradually from 998(59%) in 1999-2000 to 709(48%) in 2003-04. It shows that the Banking Ombudsmen in India have been functioning effectively.

Pending Complaints

The details of complaints pending for the year 2003-04 have been furnished in Table 5. It is observed from the above table that 530 (36%) out of 1474 pending complaints during the year 2003-04 were delayed upto one month whereas 37% of the complaints were pending for more than three months. Around 50% of the pending complaints remained pending for more than two months.

Settlement of Disputes

The Banking Ombudsman Scheme provides three methods of settlement of disputes, namely, settlement of complaints by Agreement, Recommendation for settlement, Award by the Banking Ombudsman. First, the Banking Ombudsman tries to promote settlement between the complainant and the bank through conciliation or mediation. If the dispute is not settled by Agreement within a period of one month, the Banking Ombudsman makes a Recommendation to the complainant and the bank. If the complaint is not settled by Agreement or Recommendation, within a period of two months from the date of receipt of the complaint or such extended date as may be considered necessary by him, the Banking Ombudsman shall inform

the parties of his intention to pass an Award. The details of Awards issued by each Banking Ombudsman Office in India during the study period 1998-99 to 2003-04 are given in Table 6.

It is evident from Table 6 that during the period 1998-99 to 2003-04, the percentage of complaints disposed of through mediation/reconciliation/recommendation/settlement, between the complainant and the banks concerned is around 98%. It indicates that the Banking Ombudsmen have been effective in taking appropriate decisions taking into consideration all the relevant and extant legal and banking instructions. Also, during the period 1999 to 2004, only 338 Awards were issued which formed 2% of the total 16261 maintainable complaints disposed of.

Expenditure incurred under the Banking Ombudsman Scheme

In consonance with clause 14(2) of the Scheme, expenditure can be incurred by the Banking Ombudsman under a system of annual budget approved by the Reserve Bank of India. The costs of the Scheme include the revenue expenditure and capital expenditure incurred while running the Banking Ombudsman Offices. The revenue expenditure includes the establishment items like salary and allowances of the staff attached to Banking Ombudsman Offices and non-establishment items such as rent, taxes, insurance, law charges, postage and telegram charges, printing and stationery expenses, publicity expenses, depreciation and other miscellaneous items. The capital expenditure items include the furniture, electrical installations, computers/related equipments, telecommunication equipments and motor vehicle.

The details of expenditure (Capital and Revenue) incurred during the period 1998-99 to 2001-2002 are given in Table 7. From the table, it is observed that the average total

expenditure incurred by all the fifteen banking ombudsman offices per year is around Rs.6 crores of which nearly 95% is revenue expenditure.

The cost details of Banking Ombudsman Offices, including the cost per complaint, are given in Table 8. The total cost of all the fifteen Banking Ombudsman Offices in India has increased from Rs.6.15 crores in 1999-2000 to Rs.7.03 crores in 2003-04. As far as the cost per complaint is concerned, it has increased from Rs.9050 in 1999-2000 to Rs.9,783 in 2002-03 and declined to Rs.7413 in 2003-04 due to increase in the number of complaints.

As provided in the Scheme, the amount spent is being recovered from participating banks in proportion to the working funds of these banks at the end of the preceding financial year. This practice is in line with the international practices adopted by various countries under Banking Ombudsman Schemes.

Conclusion

Even though the office of Banking Ombudsman is another channel for redressal of complaints of bank customers, it is not effective in bringing about redressal of complaints because it is not vested with the powers of courts to call for information, summon any person to give evidence and produce material before it and enforce its judgement or order. The recommendations and Awards of the Banking Ombuds-

man are subject to acceptance by both parties. If complainant accepts the Award, no further suit can be filed before the Consumer Court/Forum. The customers in rural branches rarely approach Banking Ombudsman since publicity is not adequate enough to make people aware of the existence of Banking Ombudsman and its functioning. Thus, the Banking Ombudsman for West Bengal and Sikkim is yet to receive a single complaint from Sikkim. One of the drawbacks of the Scheme is that the Banking Ombudsman does not have powers to issue orders in cases involving financial malpractices. Moreover, it has been reported that most of the banks enter into further correspondence and continue to delay the implementation of the Awards. Such delays in redressal will defeat the very objective of the Banking Ombudsman Scheme.

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Table -1
Number of complaints received by the Banking Ombudsmen

Period	No. of complaints received during the year	Average No. of complaints per Office
1998-99	6062	404
1999-00	4994	333
2000-01	5803	387
2001-02	5907	394
2002-03	5399	360
2003-04	8246	550

Source: Annual Report on Banking Ombudsman Scheme, 2003-04

Table - 2
Subject-wise classification of complaints

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Deposit Accounts	1830	1687	1617	1662	1789	2500
Loans and Advances	1904	1844	1930	1982	1651	1226
Delay in collection of cheques/bills	1198	943	999	1062	908	1001
Others	2532	2326	2432	2316	2158	4756
Total	7464* (1402)	6800* (1806)	6978* (1175)	7022* (1115)	6506* (1107)	9483* (1237)

Source: Annual Report on Banking Ombudsman Scheme, 2003-04

*No. of complaints includes previous year's pending complaints as indicated in brackets

Table – 3
Bank-group-wise classification of complaints

Bank group	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Nationalised Banks	4063	3857	3657	3609	3145	4049
SBI Group	2337	1960	2175	2112	1914	2779
Private Sector Banks	390	417	531	629	718	1325
Foreign Banks	219	198	147	254	313	406
Scheduled Primary Co-op. Banks	82	131	122	55	112	166
Others	373	237	346	363	304*	758**
Total	7464	6800	6978	7022	6506	9483

Source: Annual Report on Banking Ombudsman Scheme, 2003-04

Note: * Includes 33 complaints against RRBs and ** Includes 232 complaints against RRBs.

Table - 4
Disposal of Complaints by Banking Ombudsmen

Particulars	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Complaints received	7464*	6800*	6978*	7022*	6506*	9483*
Of which not maintainable	3317	2614	2732	2404	2132	4011
Complaints maintainable	4147	4186	4246	4618	4374	5472
Disposed of	2807	2484	3131	3511	3137	3998
Percentage of maintainable complaints disposed of	68	60	74	76	72	73
Pending	1340	1702	1115	1107	1237	1474**
Of the pending complaints, those pending for more than 2 months	No.	775	998	589	624	709
	%	58	59	53	56	48

Source: Annual Report on Banking Ombudsman Scheme, 2003-04

*Includes previous year's pending complaints.

Table - 5
Details of complaints pending for the year 2003-04

Period of delay	Number of Complaints
Upto 1 month	530(36)
1-2 months	235(16)
2-3 months	164(11)
More than 3 months	545(37)
Total	1474(100)

Source: Annual Report on Banking Ombudsman Scheme, 2003-04

Table - 6
Awards issued by the Banking Ombudsmen

1	Ahmedabad	-	1	4	3	8	2
2	Bangalore	7	6	3	7	-	8
3	Bhubaneswar	-	2	1	3	3	3
4	Bhopal	2	3	-	-	-	6
5	Kolkata	2	14	16	15	13	13
6	Chennai	8	10	9	-	1	0
7	Chandigarh	0	0	1	2	-	6
8	Guwahati	-	2	2	-	14	17
9	Hyderabad	14	9	2	-	-	6
10	Jaipur	4	1	3	4	-	5
11	Kanpur	28	20	8	5	-	5
12	Patna	23	-	-	-	2	13
13	Mumbai	2	1	1	2	6	15
14	New Delhi	2	3	2	3	-	20
15	Thiruvananthapuram	-	2	-	-	-	2
	Total awards	92	74	52	44	47	121
	Awards not implemented by banks	49	34	27	16	20	37
	% of disposal of complaints by issue of awards to total maintainable complaints disposed of	3.28	2.98	1.66	1.25	1.07	2.21
	% of disposal of complaints by mediation/ reconciliation/ recommendation/ settlement to total maintainable complaints disposed of	96.72	97.02	98.34	98.75	98.93	97.78

Source: Annual Report on Banking Ombudsman Scheme, 2003-04

Table - 7
Expenditure incurred by Banking Ombudsmen in India

Year	Capital Expenditure	Revenue Expenditure	Total
	Rs.	Rs.	Rs.
1998-99	19,57,865(3.7)	5,10,97,103(96.3)	5,30,54,968
1999-00	28,49,649(4.6)	5,86,90,225(95.4)	6,15,39,874
2000-01	54,63,858(7.8)	6,44,52,697(92.2)	6,99,16,555
2001-02	32,77,949(5.5)	5,58,79,181(94.5)	5,91,57,130

Source: <http://www.rbi.org.in>

Table - 8
Cost details of Banking Ombudsman Offices

Period	Total Cost(Rs Crores)	No. of Complaints dealt	Cost per complaint (Rs)
1998-99	5.30	7464	7108
1999-00	6.15	6800	9050
2000-01	6.99	6978	10020
2001-02	5.91	7022	8425
2002-03	6.36	6506	9783
2003-04	7.03	9483	7413

Source: Annual Report on Banking Ombudsman Scheme, 2003-04